

Rating Rationale

20 Sep 2019

Agarwal Foundries

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs. 19.00 Crore of Agarwal Foundries ('AF' or 'the proprietorship concern')

Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous [#]	Present
Fund Based					
Cash Credit	15.00	15.00	Long Term	BWR BBB/Stable	BWR BBB/Stable
Proposed Term Loan	4.50	-			
Non Fund Based					
Letter of Credit	4.00	4.00	Short Term	BWR A3+	BWR A3+
Total	23.50	Rs. 19.00 Crore (Rupees Nineteen Crore Only)			

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings migrated to 'Rating Not Reviewed' category from 2nd September 2019

Note: Details of Bank facilities are provided in Annexure I

Ratings Action/Outlook

The reaffirmation of ratings continues to draw comfort from the proprietor's experience in iron & steel industry, established operational track record, long standing relationships with customers and suppliers, overall group synergies derived from the operations of the proprietorship concern being aligned to and integrated with the flagship company i.e., MS Agarwal Foundries Private Limited of Hyderabad based MS group and the average financial risk profile. However, the ratings remain constrained by the susceptibility of profitability to volatility in raw material prices, thin profitability margins, stiff competition from both organized and unorganized players in a fragmented industry, inherent risks associated with the cyclical iron & steel industry and working capital intensive nature of operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Agarwal Foundries'** business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the proprietorship concern records significantly better-than-expected revenue and profitability and improved working capital management,

resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the proprietorship concern reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the ratings.

Key Rating Drivers

Credit Strengths:

- **Experienced management and established track record:** The proprietor has over three decades of experience in Iron & Steel industry, which has helped them in establishing strong relationships with suppliers and customers. AF has an operational track record of around 28 years.
- **Group support and integrated operations:** The proprietorship concern is forward integrated with the flagship company MS Agarwal Foundries Private Limited [*rated BWR BBB+/A2*] of the Hyderabad based MS group. The concern supplies billets to MS Agarwal Foundries Private Limited for manufacturing of TMT bars (~20% of revenue). The other operating entity which is into Iron & Steel business is Maruti Ispat & Energy Private Limited [*BWR BBB+/A2+; manufacturing of Sponge Iron*]. The group entities are managed/operated by common promoters and there are strong managerial and operational synergies.
- **Average financial risk profile:** Revenue remained almost flat over the last three years, with revenue of Rs 82.07 crore in FY17, Rs. 106.23 crore in FY18 and ~Rs. 115.85 crore in FY19 (provisional). Operating margin was 2.25% for FY18 as against 3.01% for FY17 and Net margin was 0.87% for FY18 as against 0.82% for FY17. Profit after Tax was Rs. 0.92 crore for FY18 as against Rs. 0.68 crore for FY17. Proprietor's capital was modest at Rs. 16.87 crore as on 31st March 2018 as against Rs. 15.25 crore as on 31st March 2017. Capital structure was comfortable with Total debt/Proprietor's capital at 0.94 times as on 31st March 2018 and 0.69 times as on 31st March 2019(provisional). Debt servicing metrics were adequate reflected by ISCR and DSCR of 2.26 times and 2.32 times respectively as on 31st March 2018.

Credit Challenges:

- **Susceptibility to cyclical and fluctuation in raw material prices:** The profitability is vulnerable to fluctuations in the prices of raw materials as the latter constitutes 75% - 80% of the operating expenses. Further the performance of AF is linked to the steel industry, with cyclical changes in demand and price volatility. The demand for steel products

depends on the growth of primary end user segments such as infrastructure. Any slowdown may in turn adversely affect the demand for steel products over the medium term.

- **Thin profitability margins:** Profitability margins continued to be thin over the last three years, due to the intensely competitive and fragmented nature of industry. Operating profit margin is around 2% - 3% and net profit margin less than 1%. Any further deterioration of profitability margins would be a key rating monitorable. .
- **Intense competition in the fragmented industry:** Iron & Steel industry is highly fragmented and the proprietorship concern faces stiff competition from unorganised as well as organised players leading to intense competition and pricing pressures, which in turn affect the profitability margins of the proprietorship concern.

Analytical Approach and Applicable Rating Criteria

As it is a proprietorship concern, Standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the proprietorship concern to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations with improved profitability margins.
- Specific credit metrics that could lead to an upgrade of AF's rating include (1) Total Debt/Proprietor's capital below 1.0 time on a sustained basis, (2) DSCR and ISCR greater than 3.0 times on a sustained basis.

Negative:

- Specific credit metrics that could lead to a downgrade of AF's rating include (1) Decline in profitability margins i.e., Operating margin below 2% and net margin below 0.5%, due to lower price realisations, increase in input costs due to changing industry conditions or a rise in capex (2) Total Debt/Proprietor's capital exceeding 2.5 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.5 times

Liquidity Position: Adequate

AF's utilization of fund based and non-fund based working capital facilities is ~90% over the last 12 months, reflecting the working capital intensity of operations. Net cash accruals were low at Rs. 1.42 crore and Rs. 2.74 crore as on 31st March 2018 and 31st March 2019(P) respectively

and Net cash accruals to Total debt was low at 0.08 times and 0.21 times as on 31st March 2018 and 31st March 2019(P) respectively. Current ratio was 1.97 times and 1.56 times as on 31st March 2018 and as on 31st March 2019(P). The proprietorship concern does not have any debt repayment obligations. Days receivables of 54 days and Days Payables of 4 days as on 31st March 2018 were modest. Timely recovery of receivables and efficient management of its working capital requirements without any strain on borrowings/cash flows will be critical.

About the concern

Agarwal Foundries, a proprietorship concern was established in 1991 at Secunderabad, Telangana, by Shri. Pramod Kumar Agarwal. AF is engaged in manufacturing of MS Ingots/Billets at its manufacturing unit at Petbasheerabad, Quthbullapur mandal, Ranga Reddy district, Telangana, has an installed capacity of 30000 TPA. The proprietorship concern supplies billets/ingots to MS Agarwal Foundries Private Limited and to its retail customers in and around Hyderabad.

Agarwal Foundries is part of Hyderabad based MS Group. Other operational entities of the group are MS Agarwal Foundries Private Limited [*BWR BBB+/A2+*], Maruti Ispat & Energy Private Limited [*BWR BBB+/A2+*], Rama Spinners Private Limited [*BWR BBB-*] and Sitaram Spinners Private Limited [*BWR BBB/A3+*].

Key Financial Indicators

Key Parameters	Units	31 Mar 2017	31 Mar 2018
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	82.07	106.23
EBIDTA	Rs. Cr	2.47	2.39
Profit After Tax	Rs. Cr	0.68	0.92
Proprietor's Capital	Rs. Cr	15.25	16.87
Total Debt/Proprietor's Capital	Times	1.09	0.94
Current Ratio	Times	1.64	1.97

On a provisional basis, the proprietorship concern has achieved a revenue of ~Rs. 115 crore for FY19 and ~Rs. 55 crore in 5MFY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA – Not Applicable

Rating History for the last three years

Sl. No.	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2018 ¹ [May 30, 2018] [#]	2017 ² [Apr 12, 2017]	2016 ² [Apr 25, 2016]
1	Cash credit	Long Term	15.00	BWR BBB/Stable	BWR BBB/Stable	BWR BBB/Stable	BWR BBB/Stable
2	Letter of Credit	Short Term	4.00	BWR A3+	BWR A3+	BWR A3+	BWR A3+
Total			Rs. 19.00 Crore (Rupees Nineteen Crore Only)				

Ratings migrated to 'Rating Not Reviewed' category from 2nd September 2019

1 Rated amount: Rs. 23.50 crore; 2 Rated Amount: Rs. 19.00 crore.

Note: An initial rating of BWR BBB/A3+ with 'Stable' outlook was assigned to the bank loan facilities of the proprietorship concern of Rs. 19.00 crore on 8th April 2015

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Agarwal Foundries

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	Indian Overseas Bank	Cash Credit	15.00	-	15.00
		Letter of Credit	-	4.00	4.00
TOTAL - Rupees Nineteen Crores Only					19.00



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